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R 280958Z JUL 08
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 2852
INFO RUCPCIM/CIMS NTDB WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCNCIS/CIS COLLECTIVE 0584
RUEHAK/AMEMBASSY ANKARA 2173
RUEHBUL/AMEMBASSY KABUL 0406
RUEHNE/AMEMBASSY NEW DELHI 0509
RUEHAST/USOFFICE ALMATY 0617

UNCLAS SECTION 01 OF 02 ASTANA 001361

DEPT FOR SCA/CEN (O'MARA)
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [ENRG](#) [EPET](#) [EFIN](#) [KTDB](#) [KZ](#)

SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, JULY 6 - JULY 19, 2008

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¶1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been verified for accuracy.

- New Transfer Pricing Law Signed
- Kazakhstan-Russia Cooperation on Financial Supervision
- Kyrgyzstan to Receive Kazakhstani Wheat
- New Head of ABN AMRO Bank Kazakhstan
- Economic Statistics
- KazMunayGas Buys 51% of MangistauMunayGas
- KMG to Explore Myortviy Kultuk
- Karachaganak Consortium Paying Crude Export Duty
- Kazakhmys in Merger Talks with Metalloinvest
- New President of British Gas Kazakhstan
- Energy Statistics for January-June 2008

New Transfer Pricing Law Signed

¶2. President Nazarbaev signed a new transfer pricing law on July 5, which, in the words of Finance Minister Zhamishev, is not designed to collect as much tax as possible, but rather to ensure that taxes are paid in the country where income is generated. The new law specifies an "arm's length principle" and provides for preliminary approval of transaction prices. Zhamishev believes the law will allow fiscal authorities to more easily identify companies that avoid paying taxes via offshore transactions.

Kazakhstan-Russia Cooperation on Financial Supervision

¶3. Kazakhstan's Financial Supervision Agency (FSA) and the Central Bank of Russia signed a memorandum on matters of bank supervision which promises an increased exchange of information between monetary officials regarding banks and their subsidiaries operating in the two countries. Specifically, details of banks' shareholders, management structure, affiliates, activities, and financial status are to be shared in an effort to assist monetary officials in taking decisions on bank permits and licenses. The memorandum also specifies cooperation on bank inspections and outlines plans to set conditions for data protection in Kazakhstan and Russia.

Kyrgyzstan to Receive Kazakhstani Wheat

14. Despite a standing ban on wheat exports, Kazakhstan will fulfill its pledged shipments of wheat to Kyrgyzstan. According to the Kazakhstan Embassy in Bishkek, immediately following Kyrgyz President Kurmanbek Bakiyev's recent visit to Kazakhstan, the two countries reached an agreement on Kazakhstan's supplying 50,000 tons of grain to Kyrgyzstan. Kyrgyzstan has already received 10,000 tons of grain, and the remaining 40,000 tons will be shipped in the near future.

New Head of ABN AMRO Bank Kazakhstan

15. Rudi Geerdink will replace Jurgen Rigterink as Chairman of the Managing Board and Country Head of ABN AMRO Bank Kazakhstan, according to a bank press release from July 16. Geerdink joined ABN AMRO in 2000 after working on risk management at PriceWaterhouse.

Economic Statistics

16. According to the Ministry of Economy and Budget Planning, GDP growth for the first six months of 2008 was 5.1% on an annualized basis. Inflation for the month of June was 1.2%. On an annualized basis, prices for food products grew by 29.3%, for paid services by 15%, and for non-food products by 11.6%. June-on-June inflation was 20%.

17. For the first five months of 2008, Kazakhstan's external trade was \$41.596 billion, an increase of 41.8% over the same period the previous year. Exports grew by 60% to \$28.012 billion and imports increased 14.8% to \$13.584 billion. The main destination countries

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for Kazakhstani exports were Italy (17.4% of total exports), Switzerland (15.2%), China (9.2%), Russia (8.6%), France (8.2%), the Netherlands (5.3%), Iran (3.4%), Israel (3.3%), Ukraine (3.3%) and Turkey (2.6%). The list of the largest exporters to Kazakhstan included Russia (39.1% of total imports), China (9.9%), Germany (7%), the U.S. (5.3%), Ukraine (5.2%), Japan (3.2%), Italy (2.8%), Turkey (2.6%), France (2.3%), and the UK (1.7%).

KazMunayGas Buys 51% of MangistauMunayGas

18. Kazakhstan's national oil and gas company, KazMunayGas (KMG), signed an agreement to purchase a 51% stake in MangistauMunayGas company (MMG), which had been majority owned by Indonesia's Central Asia Petroleum Corp. Former KMG president Uzakbay Karabalin has been appointed MMG director general. MMG owns 36 oil and gas fields and a 58% stake in the Pavlodar Petrochemical Plant.

KMG to Explore Mertviy Kultuk

19. Kazakhstan's Ministry of Energy and Mineral Resources and KMG signed a contract for the exploration and production of hydrocarbons in the Mertviy Kultuk offshore section of the Caspian Sea. The recoverable oil resources are estimated at 164 million tons. A 50% stake in this project will be given to a legal entity which will be established by a group of Kazakhstani investors.

Karachaganak Consortium Paying Crude Export Duty

110. Karachaganak Petroleum Operating B.V. (KPO) paid \$82.5 million in crude export duties in June. On July 17, the Finance Ministry published on its website an updated list of companies subject to Kazakhstan's new crude export duty, with KPO the sole addition to this latest version of the list.

Kazakhmys in Merger Talks with Metalloinvest

¶11. The largest copper producing company in Kazakhstan, Kazakhmys, is holding preliminary negotiations with Russia's Metalloinvest holding company regarding a potential merger. Metallinvest annually produces 6 million tons of steel and 40 million tons of ore.

New President of British Gas Kazakhstan

¶12. Peter Dranfield replaced Lewis Affleck as president of British Gas Kazakhstan. Dranfield has been in charge of BG operations in Egypt, Trinidad and Tobago, and most recently Oman. He previously worked in Kazakhstan during the 1990s.

Energy Statistics for January-June 2008

¶13. According to the National Statistics Agency, Kazakhstan's crude production was 29.19 million tons during January-June 2008, a 7.8% increase over the same period in 2007. Gas condensate production rose 4% to 6.44 million tons. Kazakhstan extracted 53.95 million tons of coal during January-June, a 19.8% increase.

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